UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics
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CS-21

THE COTTON SITUATION

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Summary

On the basis of prospective consumption of cotton during the last 2 months (June-July) of the current season, the 1937-38 world consumption of American cotton will total about 11,100,000 running bales, the Bureau of Agricultural Economics estimated today. This is almost 2 million bales less than that of the previous season and 15 percent less than the average for the 5 years ended 1936-37. While consumption in the United States was slightly higher in June than in May it is expected to be less in July. Despite recent market increases in sales of cotton textiles by domestic mills, it is expected that seasonal factors in July will reduce consumption.

On the basis of present estimates of the season's running-bale supply and of the small quantity accidentally destroyed, a consumption of 11,100,000 bales in 1937-38 would leave a world carry-over of American cotton on August 1 of approximately 13,500,000 bales. This compares with 6,200,000 bales a year earlier and the previous record high of nearly 13,300,000 bales at the beginning of the 1932-33 season.

It seems likely that the world mill consumption of foreign cotton for the season now drawing to a close probably will be in the neighborhood of 15-1/4 million bales compared with 17,900,000 bales the previous season. In view of the uncertainty with respect to the 1937-38 supply of Chinese cotton available for mill consumption and exports, it is difficult to estimate the world carry-over of foreign cotton, even assuming the above consumption estimate to be correct. A very tentative estimate of the world

carry-over as of August 1, however, is 10 million bales. On August 1 last year the estimated world carry-over of foreign cotton was a little less than 7,100,000 bales, a new record high.

Considerable improvement occurred in sales of cotton goods by British and Chinese mills in the last part of June but, in most other countries, sales apparently continued very greatly restricted. The statistical position of foreign mills as a whole and seasonal factors seem likely to result in a lower average consumption in these countries in June and July than in May.

In view of its importance with respect to the prospective 1938-39 world supply, much interest is now centered in developments with respect to the new crop. The area in cultivation in the United States on July 1 was recently officially estimated at 26,900,000 acres. With 10-year average percentage abandonment and State yields equal to the averages for the preceding 5 and 10 years, this acreage would give a crop of approximately 11-1/2 million and 10-3/4 million bales of 500 pounds gross weight, respectively, compared with a crop of 18,946,000 bales in 1937. The 1938 Chinese crop is estimated at 1,400,000 bales (40 percent) less than that of the preceding year. In northern Brazil and Mexico the 1938-39 production estimates are 15 and 24 percent less, respectively, than the latest estimates of the preceding crop.

PRICES

Domestic cotton prices advanced a little more than 1 cent per pound during June and the first few days of July accompanying the sharp advance in prices of securities and a number of other commodities, increased sales of cotton textiles by mills and trade reports of unfavorable developments with respect to United States crop prospects. On July 8 Middling 7/8 inch cotton in the 10 markets averaged 9.15 cents per pound and was the highest average for these markets in approximately 4 months. During the second week of July, prices in these markets weakened somewhat and by July 16 Middling 7/8 inch declined to 8.66 cents. Prices then strengthened somewhat and on July

23 averaged 8.89 cents. In July last year prices in these markets averaged 12.12 cents. Not since July 1932 has the price of Middling 7/8 inch in the 10 markets for the month of July averaged less than 10.50 cents.

The advance in the price of American cotton in the United States in June and early July was accompanied by an advance of approximately the same amount in Liverpool. While the price of most foreign growths in Liverpool also advanced, the rise was less than that of American. As a result, on July 8 the price of American was higher relative to most of these growths than for many months.

EXPORTS

The 176,000 running bales of American cotton exported in June represented a decline of 23 percent in comparison with a year earlier and a 55 percent decline in comparison with the average for June during the 5 years 1933-37, according to data released by the Bureau of the Census. Exports for June this year were the smallest for the month in 26 years.

The drop in June reduced the increase of total exports for the 11 months of the current season over those of a year earlier to only 87,000 bales or 2 percent. At the end of January, the total for the first half of the season was 400,000 bales and 12 percent larger than in the corresponding period of 1936-37. According to trade reports, exports in the first 20 days of July were somewhat higher than a year earlier. While there is usually some difference between the official data and those from trade sources, these unofficial data for the first 3 weeks of July indicate that for the season ending July 31, 1938, total exports of American cotton as officially reported probably will be about 125,000 bales larger than the 5,440,000 bales exported in the 1936-37 season.

DEMAND AND CONSUMPTION

UNITED STATES: Position of mills greatly improved

Domestic manufacturers' sales of cotton goods were as large as or larger than the restricted production in each of the 4 weeks ended with July 9, were reported as especially large in the 2 weeks ended July 2, and were probably more favorable relative to output than in any 4-week period for more than a year. This period of active sales greatly increased the statistical position of domestic mills resulting in a marked increase in unfilled orders and perhaps some decline in the stocks of manufactured goods. During the 2 weeks ended July 23, sales were considerably smaller than in the active weeks immediately preceding, but did not appear to be very materially below output.

Domestic mill consumption in June amounted to 443,000 running bales compared with 426,000 bales in May and 681,000 bales in June last year. The daily rate of consumption in June was 3 percent higher than in May but 35 percent lower than in June last year. For the 11 months August through June, United States consumption of all cotton totaled 5,307,000 bales which was

2,060,000 bales or 28 percent less than the record high of last (1936-37) season. Of the total consumption for the 11 months ended June 30, 1938, all but about 132,000 bales was American cotton.

Preliminary reports with respect to domestic mill activity in early July indicate that the daily rate of cotton consumption for the month of July will probably not show any increase over June. This, together with two less working days in July than in June, makes it seem likely that total consumption for the month of July will be within a few thousand bales of 400,000. All but about 10,000 bales of this will be American cotton. Should consumption for the month prove to be about as indicated, the total domestic consumption of American cotton for the 1937-38 season would amount to a little less than 5,600,000 bales and a total consumption of foreign cotton to about 140,000 bales.

CONSUMPTION IN FOREIGN COUNTRIES: Season's total to be much lower than in 1936-37

During the 10 months ended May 31, total consumption of American cotton in foreign countries amounted to 4,690,000 bales, according to estimates of the New York Cotton Exchange Service. This was 280,000 bales or 6 percent larger than in the corresponding months a year earlier, but the smallest for any other like period for many years. On the basis of preliminary information with respect to mill activity in foreign countries during June and July, it now seems likely that total consumption of American cotton outside the United States for the 12 months ended July 31, 1938, will probably amount to about 5,500,000 bales.

It has been estimated (by the New York Cotton Exchange Service) that cotton mills outside the United States consumed a total of 12,780,000 bales of foreign cotton during the first 10 months of the 1937-38 season. On the basis of this estimate and reports pertaining to mill activity in June and early July, it now seems likely that for the entire season, consumption of foreign cotton in countries other than the United States will probably total in the neighborhood of 15,200,000 bales. This would compare with a total of 17,720,000 bales in 1936-37, 15,070,000 in 1935-36 and an average of 13,750,000 bales for the 5 years ended 1936-37.

EUROPE: 1/ Sales of cotton textiles improve somewhat, output continues low

The encouraging trend of raw cotton prices and somewhat more reassuring economic reports from the United States in June and early July were accompanied by better feeling and a measurable improvement in new business of the British mills, and on the Continent the downward trend in cotton textile sales at least seems to have been arrested. Mill occupation in Europe on the whole appears to have undergone further downward adjustment, however, in accordance with the decline of new sales in earlier months. Unemployment in the British cotton mills, in particular, was on a very high level at the middle of June, but some idle machinery has since been put into operation.

1/ Based largely upon a report prepared in the Bureau's London Office dated July 6.

The improvement which occurred in the statistical position of the British cotton textile industry in June was in evidence only to a very limited extent on the Continent. In France during most of June and early July sales were apparently below the restricted output. Prior to early July when a slight improvement was reported, the weakness of domestic buying in Italy made domestic stocks of textiles appear overloaded with relatively high-priced goods, and the unsatisfactory state of the export markets gives little encouragement as a source for the disposal of these stocks. The German cotton textile industry continues well occupied - despite seasonally quieter tendencies in places - and better supplied with raw materials compared with last year. Austrian textile exports have severely declined since the annexation, and the cotton industry is in a transitory period in which adjustments to the Reich system of raw material allotment and substitute fiber admixture must be made. Czechoslovakia continues her vital struggle for export markets, with mill activity depressed and much below 1 and 2 years ago. Naturally, as a result of the more or less world-wide depression in cotton textiles, competition in the European textile export markets has become greatly intensified and there is keen rivalry between offerings notably from Great Britain, Italy, Czechoslovakia, France, Belgium and Germany.

United Kingdom

The cotton textile demand situation in Great Britain, which by the end of May had reached a very depressed state, improved noticeably through June and early July. Small orders for both yarn and cloth apparently were taken in sufficient number to make a fair aggregate volume for the month of June. Some mills, in fact, were said to have been able to sell more freely than at any time since the summer of 1937. By the end of June, however, there were indications that buyers were reluctant in following the steep advance in prices, but trade reports indicate that since that time sales have held up quite well in relation to output. As a result of this improvement, apparently there has been a slight increase in mill activity in recent weeks.

In the export field, a fair inquiry from India has continued to be reported, but markets which were heavy buyers last year apparently have not yet appeared to want goods in quantity. Exports showed further recession in May and June. In May piece goods exports reached, it is said, the level of 86 years ago, and were 32 percent below a year earlier, while yarn exports were 40 percent down from May 1937. In June piece goods exports were 13 percent less than in May and 38 percent below June 1937. A development, however, which it is thought may somewhat encourage British exports of yarn and cloth to Germany, is the arrangement announced by the British Government on July 1 for the resumption of interest payments on the Austrian guaranteed loan. It is understood that in the settlement Germany makes useful trade concessions as well as undertakes to reimburse British payment under the guarantee and to service British holdings of this and certain other German and Austrian obligations on which Great Britain in turn grants a substantial reduction in interest rate.

In the home retail trade, conditions continue to be reasonably satisfactory. Despite an increase between June of 1937 and June 1938 of roundly half a million in the total of unemployed workers in Great Britain, retail sales of piece goods of all kinds in May were reported as only 2.3 percent lower in value than in May a year ago, while stocks were 3.8 percent lower. June sales are said to have resulted in further satisfactory retail clearances of cotton goods.

Germany

Continued high cotton mill activity is reported from Germany for the month of June and the first half of July, except for slight seasonal declines in some sections. According to import statistics, the raw material supply this season continues considerably more favorable than a year earlier. Although imports of raw cotton and waste, etc. in March and April ran much below the months immediately preceding, May imports were again comparatively high.

An examination of total German textile exports in 1937 (including all kinds of textile goods) shows a further increase in the export value to 541 million marks, from 435 million in 1935 and 510 million in 1936 2/ equivalent to 218, 175, and 205 million dollars, respectively, at the annual average exchange rate. The increases reported were largely due to gains made in exports to Southeastern Europe (notably Yugoslavia, Turkey and Greece) and to Northern Europe (Great Britain and the Scandinavian countries). However, South American countries also increased their takings of German textiles, and there were gains in Africa and Asia as well. Considerable declines, on the other hand, were registered in German exports to the United States and such countries as the Netherlands and Switzerland whose textile industries were under-employed and largely dependent on exports.

Reflections regarding the future of Austrian textile exports indicate that the quality factor is likely to play some role. Hitherto Austrian textile production - perfectly free to cover its raw material needs according to requirements - has mostly used traditional spinning materials, while from now on the German substitute mixtures will prevail. It is thought questionable, in some quarters, whether export buyers will readily change over to the mixed type of textiles. They hope that special provision for pure raw material allotments for export orders will be made. Reports indicate that, since the annexation, Austrian textile sales to export markets have already shown a very material decline.

The first factory for the production of cell-wool or staple fiber in Austria was founded in June 3/. The factory - which will be operated in conjunction with an old-established paper factory - is to have an annual capacity of 15,000 metric tons (33,000,000 lb.) of cell-wool.

2/ Cf. Frankfurter Ztg., June 14, 1938.
3/ Zellwolle Lenzing A. G.

Czechoslovakia

Little or no improvement was reported in the Czechoslovakian cotton textile industry in June and early July. Unfilled orders on hand in spinning mills were reported very much below last year, and current sales both for the home and export markets remained unsatisfactory. As a result, mill activity was further reduced. Latest available statistics on the percentage of spinning mill occupation (1929= 100) are for March when activity stood at 76.6, compared with 102.7 in March 1937. April 1938 is presumed to have been reduced to about 72.0 and May and June too have been around this level.

France

June developments in the French cotton textile industry, on the whole, continued unsatisfactory. While the first half of the month appeared somewhat brighter, with rather more business in fabrics as well as yarns reported notably from Normandy, the second half was again very quiet, and June production on the whole seems to have outrun sales. Complaints were heard as to prices received, which are described as much below costs.

Italy 4/

Declining raw cotton and cotton goods markets are reported from Italy for May, and the situation in most of June did not seem to show much improvement in new sales. Reports to the New York Cotton Exchange Service indicate some improvement in late June or early July. Official statistics for March this year showed a further reduction in spinning mill activity, while weaving mill occupation remained on the enhanced February level. Both spinning and weaving activity at that time were still well above a year earlier, particularly the latter, largely based on old orders on hand. Despite any recent increase, current sales by mills remain unsatisfactory with domestic and export demand weak. Inventories are said to be overloaded with relatively high-priced goods. In the export markets keen competition is reported from German, Japanese and British yarns and textiles. Italian mill activity is indicated from reports on employment to have been further reduced through May with no indications of any significant increase since then.

Following the decline in export orders reported for some time back, actual exports of cotton yarn and cotton fabrics (including exports to the colonies) during the first 4 months of 1938 were smaller by 15 and 12 percent, respectively, than in the corresponding period of 1937. Raw cotton imports, on the other hand, from January - April 1938 were 13 percent larger than in the same months of 1937, and some increase in raw cotton stocks in mills and warehouses (including free ports) were reported.

4/ Based largely on information received from the American Consulate General at Milan.

ORIENT: Cotton consumption about unchanged in June, expected to decline in July

Japan 5/

Indications are that total cotton consumption in Japan in June remained at about the same level as in May but was approximately one-fourth less than a year earlier. Because of a more favorable comparison in the early part of the season, total consumption for the 11 months ended June was nearly 10 percent below the record high of the corresponding months last season. If recent reports pertaining to Japanese cotton control measures are correct, and if these measures are strictly enforced, it seems quite likely that Japanese cotton mill consumption will decline considerably in July.

According to press reports, the new cotton control measure, effective July 1, prohibits the manufacture of pure or mixed cotton yarn and cloth for sale - except for military purposes - in Japan, in Manchuria, or in areas of China where Japanese currency is being used. In the early part of 1938, the Japanese Government issued an ordinance requiring that all textiles for home use include a mixture of staple fiber. In the case of cotton textiles, the regulations required mixtures of about one-third staple fiber and two-thirds cotton. As a result of this previous regulation, the relative importance of the Japanese market as an outlet for goods produced from cotton manufactured in Japan has probably been reduced somewhat since 1937 when it is estimated that about 50 percent of the cotton manufactured in Japan was for domestic use and the remainder used in the production of goods for export. It is clearly evident, however, that if this measure applies to all textiles, other than those sold to the Government for military purposes, it would materially reduce the quantity of cotton consumed and imported by Japan unless Japanese exports of goods increase materially.

It is stated that the object of the control measure is to link raw cotton imports to cotton textile exports. It is stated that control of the textile industry will be returned to the cotton spinners' association and cloth exporters' association acting through the Government-controlled Cotton Demand and Supply Adjustment Council in an endeavor to minimize uncertainties within the industry. According to reports, official maximum prices of cotton yarn and cloth previously in existence are to be discontinued. It is further stated that existing stocks of pure and mixed cotton yarn and cloth have been ordered to be sold to the spinners' association and to the cloth wholesalers' association which are to distribute these goods at such prices and in such manner as the Government may direct.

5/ Based largely on radiograms from the Bureau's Shanghai Office, dated July 6, 8, 20 and 21, transmitting information furnished by the American Consulate at Osaka.

China, including Manchuria 6/

Cotton mill activity in China remained about the same in June as in April and May, with mills slightly less active in May in Hankow but somewhat more active in Shanghai. Total mill consumption for June is estimated at 120,000 bales, equivalent to an annual rate of 1,250,000 bales, which is less than half as large as the unusually high consumption during the 1936-37 season. The current rate, however, is much higher than in the first part of the 1937-38 season. Prices of Chinese cotton in Shanghai were considerably higher in the early part of July than a month earlier. This advance was accompanied by a considerable increase in the price of cotton yarn with spinners' margins continuing unusually high. This, along with the fact that yarn stocks at Shanghai were reported as being low, is favorable to a continuation of the somewhat higher level of mill activity in Shanghai.

India

Preliminary reports indicate that cotton mill activity in India continued quite high in June, although somewhat less than in the months immediately preceding. Unless activity declines considerably during July, it is now expected that consumption for the 12 months ended July 31 will exceed that of the previous season by about 350,000 bales and exceed by a substantial margin that of any previous season. The unusually high level of cotton consumption in India during the past several months, when cotton consumption was declining in most parts of the world, is accounted for to some extent by reduced imports from Japan and also by increased exports of cotton textiles from India, apparently resulting from the difficulties confronted by the Japanese export industry during recent months. Indications are, however, that sales of cotton goods in India have been maintained at an unusually high level during the current season.

SUPPLY

Carry-over

It is now estimated that on August 1, 1938, the world carry-over of American cotton will total about 13,500,000 running bales compared with approximately 6,200,000 bales a year earlier and a previous record high of nearly 13,300,000 bales in 1932. The estimate of this year's carry-over is very tentative, both because of uncertainties as to the exact quantity of American cotton which will be consumed throughout the world (see Demand and Consumption Section above) and also because of the fact that the estimate of the 1937-38 supply - the August-July ginnings plus the city crop - is still preliminary as is the estimate of the quantity of American cotton accidentally destroyed during the season.

6/ Based largely on radiograms from the Bureau's Shanghai Office dated July 13 and 14.

It seems quite likely, however, that the above estimate of carry-over will be fairly close to the final.

The world carry-over of foreign cotton on August 1 this year has been very tentatively estimated at about 10 million bales. This compares with a little less than 7,100,000 bales last year which is the previous record high. However, any estimate made at this time of the world carry-over of foreign cotton must be considered as subject to considerable revision. This is especially true because of the exceptionally tentative estimate of the 1938-39 commercial supply of Chinese cotton and the uncertainty of the estimates of the quantity of Chinese cotton consumed and destroyed during the season (such estimates are difficult to estimate at any time but especially so this year because of military activity in important cotton producing and consuming areas), as well as because of the usual uncertainty of the supply and distribution estimates for other foreign growths.

These rough estimates indicate a world carry-over of all cotton on August 1 this year of about 23,500,000 bales. The estimated carry-over on August 1 last year was 13,300,000 bales. The previous record carry-over of 18,300,000 bales occurred in 1932.

United States Crop Prospects

The acreage of cotton in cultivation in the United States on July 1 is estimated by the Crop Reporting Board at 26,904,000 acres. This estimate which was released July 8 is 22 percent less than the 34,471,000 acres in cultivation on July 1, 1937, 28 percent less than the 1927-36 average, and 16.8 percent less than the 1933-37 average. Applying the 10-year average (1928-37) percentage abandonment to this year's planted acreage would indicate the smallest acreage for harvest since 1900. The next lowest acreage was in 1934 when 26,866,000 acres were harvested. The indicated acreage in cultivation on July 1 is more than 1 million bales less than the preliminary estimate of the national acreage allotment as determined under the provisions of the amended Agricultural Adjustment Act of 1938. The Crop Reporting Board attributes the small 1938 acreage to "the Agricultural Adjustment Program, relatively low cotton prices for last year's crop, and difficulties in securing stands because of unfavorable weather."

The official report on probable production of lint will be made by the Crop Reporting Board on August 8. With average percentage abandonment for the 10 years ended 1937 and with yields in each of the cotton producing States equal to the average for the 5 years 1933-37, the above estimate of acreage in cultivation on July 1 would give a crop of about 11-1/2 million bales, and with yields equal to the average for the last 10 years a crop of 10,750,000 bales would be produced.

Foreign Crop Prospects

The 1938 Chinese cotton crop is still being estimated by the Bureau's Shanghai office at 2,200,000 bales of 478 pounds net weight according to a radiogram received July 14. While Chinese cotton crop conditions in general deteriorated during the past month, recent information indicates that the earlier estimates of acreage were somewhat too low. The deterioration in crop conditions resulted from excessive rains in the Yangtze Valley, Hopei, Shantung, and Honan. In eastern Honan, northern Anhwei, and along the Yangtze River serious floods occurred. The above estimate is 1,400,000 bales or 40 percent less than the crop harvested in 1937. This decline is expected to more than offset the large increase in the carry-over of Chinese cotton on August 1, 1938, over that of a year earlier which resulted from a rather large crop and the sharp decline in cotton consumption in China.

In view of the disruptive conditions in the cotton manufacturing centers of China and in Chinese transportation facilities, an unusually large proportion of the 1937 crop was consumed in Chinese homes and, therefore, never reached commercial channels. It is quite possible that for similar reasons, the 1938-39 Chinese commercial crop, in relation to the total agricultural crop, may also be smaller than usual.

Other 1938-39 production estimates thus far received include northern Brazil and Mexico. The new crop in these two areas is now expected to be 15 and 24 percent less, respectively, than in 1937-38. The first official estimate of the 1938-39 cotton acreage in Egypt was 6 percent less than that of the preceding crop, while in Bulgaria it was estimated to be 27 percent more than in 1937-38. According to an unofficial report, information from the earlier cotton planting districts of India indicates a small decrease in acreage in these areas.

These early and preliminary reports indicate that the total 1938-39 foreign cotton crop may be substantially smaller than the unusually large crop of 1937-38.